The newspaper of drug store retailing

Jan.7, 1991

DRUG STORE NEWS

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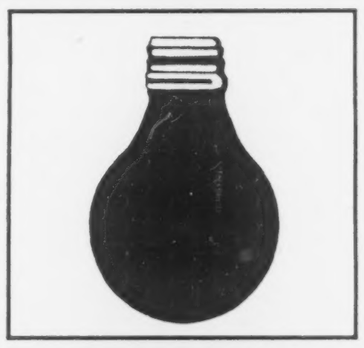
LATE NEWS

LANCASTER, CA – Drug Emporium is readying its newest store for a Dec. 7 opening in this city of 50,000, located about 40 miles north of Los Angeles over the San Gabriel Mountains. The new store will be the deep-discounter's 10th unit in the greater L.A. region.

•LOS ANGELES — Thrifty Corp. has named Dan Ramirez as its vp, pharmacy operations. Ramirez, formerly director of pharmacy at Bi-Mart, replaces Herbert Zarrow, who left the company.

FEATURES



Specialty bulbs bolsters category

Buyers will look for brilliance in lighting products at the NHMA show in Chicago. **Page 24.**

Drug Emporium gets a facelift

Photo coverage shows the look of Drug Emporium's cosmetic dept. **Page 38.**

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Walgreens wins Med-Glaser assets

Plans to run four stores; will fold scripts, inventory into existing base

PHOENIX — Walgreen Co. was awarded the assets of Medicare-Glaser in U.S. Bankruptcy Court here after winning an auction bid that included a plan to operate only four stores.

With an offer of $12.2 million, or 110 percent of inventory value, plus $50,000 to clear store leases, Walgreens out-muscled bidders that included the St. Louis-based Schnuck's Supermarkets.

Walgreens gains all the assets of 73 stores, including prescription files. A Medicare-Glaser source estimated the chain's script volume at 12,000 to 13,000 a month. NuCrown Optical of St. Louis bought the inventory of five optical stores.

The buy will greatly increase Walgreens' St. Louis market share, providing it can hold Medicare's customer base. Many Walgreens stores are located close to Medicare-Glaser stores and can conveniently absorb their business. Walgreens, with 56 stores in the market, is already the leader.

Walgreens gathers steam in St. Louis: Map is taken from 2-page company ad in market.

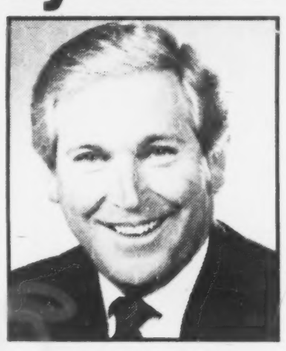
Medicare-Glaser had an estimated 15 percent market share of drug store merchandise sales among all mass merchants, with sales projected at $88 million for the fiscal year ending this March, a company spokesman said. While declining to name Walgreens' share, a company spokesperson said that the 35 percent reported in several press accounts was "way too high."

With Walgreens closing most of the stores, the 65-year-old Medicare-Glaser fails to emerge from Chapter 11 bankruptcy as a "going concern," as employees had hoped it would.

Most of the 889 employees will be out of work after the sale closes in January. But market observers said that the pressing need in retail services for store level employees will allow many to find new work. It might be harder on

See **Walgreens** *page 45*

McAlear succeeds Schiff as top Pay Less exec



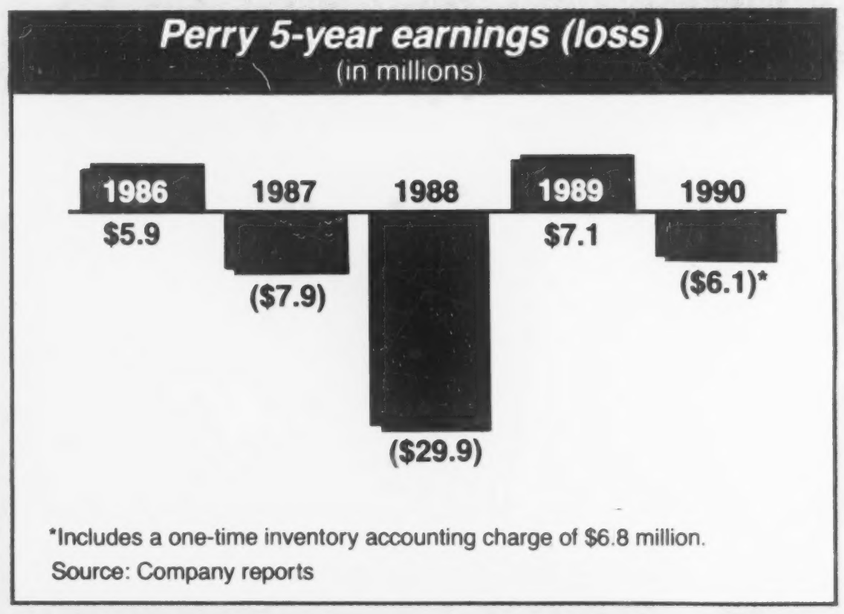
McAlear

WILSONVILLE, Ore. — Pay Less Drug Stores and parent company K mart Corp. have named Tim McAlear president and chief executive of the 320-store drug chain, effective immediately. The promotion caps McAlear's rapid rise in status since moving from K mart to Pay Less nearly four years ago.

McAlear, 46, replaces Pay Less veteran Ron Schiff, who resigned for what the company only described as "personal reasons."

The move was a sudden one, but McAlear's quick ascension was not wholly unexpected. He was a key operations executive at K mart who served as a district manager, director of store development for K mart's central region, and general manager of its Kresge and Jupiter stores. Following K mart's acquisition of Pay Less, McAlear was hand picked to spear-

See **McAlear** *page 45*



O'Leary named Fay's president and COO

O'Leary

LIVERPOOL, N.Y. — Daniel O'Leary, a former accountant with Touche Ross & Co. who joined Fay's in 1987, has been elected the company's president and chief operating officer.

The move also entails a reorganization that eliminates the post that O'Leary had held — executive vp, reporting to chairman and ceo Henry Panasci, Jr. In that post, O'Leary was in charge of virtually all departments other than store operations, merchandising and marketing.

Some of those retail "support" departments will now be directly overseen by others.

Panasci said that O'Leary's executive skills and finance background will complement the merchandising and marketing skills of the heads of the company's three operating divisions, who will now report to O'Leary. Those

See **Fay's** *page 45*

Perry Drug predicts rebound from '90 loss

By James Frederick

PONTIAC, Mich. — Perry Drug Stores recorded a sharp loss for its fourth quarter and fiscal year ended Oct. 31, but company officials say steps already in place will nudge Perry back on track this year.

Fulfilling its own predictions, the company reported a loss of $3.8 million in the fourth quarter, compared with net earnings of $1.3 million in the final period last year. Perry attributes the downturn to a deteriorating economy and softened consumer demand, which led to below-plan sales of $161 million vs. $162 million last year.

General merchandise sales were particularly hard-hit in Perry stores, and picketing by some former Revco workers and their hirelings at some Perry sites may have had some impact.

The fourth-quarter loss dragged operating income for all of fiscal 1990 down to $595,000 on sales of $658 million. A major change in Perry's accounting method, however, resulted in a one-time charge of $6.8 million and a net loss for the year of $6.2 million, compared with net earnings of $7.1 million on sales of $670 million in fiscal 1989.

The accounting change—by which Perry moved from

See **Perry** *page 45*

NEWS IN BRIEF

Kmart inks Price Savers takeover

TROY, Mich. — Adding to its strength in the warehouse club arena, K mart Corp. agreed to purchase Price Savers Wholesale Inc., a 17-store chain based in Salt Lake City. Terms weren't disclosed.

Price Savers is a membership-based operation that reportedly will generate $850 million in revenues in its current fiscal year. K mart described it as a profitable retailer that would enhance its strength in the warehouse club business.

In 1989, K mart purchased Pace Membership Warehouse for $322 million and merged its fledgling Makro division into Pace. The Price Savers acquisition extends K mart's wholesale club operations into new markets in the West.

The latest takeover extends the consolidation of the membership warehouse club industry. In November, Wal-Mart Stores bought out Wholesale Club of Indianapolis.

BW now Winn-Dixie's primary Rx supplier

INDIANAPOLIS — Bindley Western Drug Co. is now the primary supplier to the pharmacies in 79 Winn-Dixie combo stores.

BW's divisions in Charlotte, N.C., Indianapolis, Atlanta, Orlando and Dallas will service the stores in eight states. Keith W. Burks, president of the drug wholesaler, said he expects the number of Winn-Dixie combos to expand significantly in the next year.

Nov. BTS show previews new lines

NEW YORK — In addition to the upcoming Back-To-School Show, Thalheim Expositions announced it will hold a second Back-To-School Show Nov. 12-14 at McCormick Place in Chicago.

"The November show was established to accommodate those retailers and manufacturers who want an early preview of new lines," said David Thalheim, president of Thalheim. The New York show will continue to be held in February.

The new fall show in Chicago will have a similar structure to the New York show. Space at the November show will be allocated initially on a seniority basis to companies that exhibit in the New York show. Thalheim's Henry Dicker has been named show manager for both exhibitions.

Pharmasave moves to central Canada

LANGLEY, B.C. — Fast-growing Pharmasave Drugs is making its first entry into the central Canada provinces of Saskatchewan and Manitoba, with 16 former independent drug stores in those provinces slated for conversion to the Pharmasave format and logo this month.

The franchise chain converted store signing Dec. 31, and will hold grand opening ceremonies at all 16 stores Jan. 16. Two more units will be signed on in March, according to company spokesman Todd Plotnikoff.

The openings will make the chain a nationwide retail name, with stores coast to coast from Vancouver to the Maritime Provinces.

RSI buys Humiston-Keeling subsidiary

CHICAGO — Humiston-Keeling has sold its data-processing subsidiary, Response Systems Inc., to RSI's current management team, Dean Huisman and Ray Heinzen.

RSI will retain its customer base in the wholesale distribution and medical claims areas.

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NACDS study says Pharm.D. may be tough pill to swallow

By Harold Cohen, R.Ph.

NEW YORK — A five-year bachelor of science program at an accredited pharmacy school is more than adequate education for a pharmacist in a community practice setting, according to a new study commissioned by NACDS.

The study, conducted by SRI International, also found that a mandatory six-year Pharm.D. degree for all pharmacy graduates would "severely exacerbate" the current pharmacist shortage.

The mandatory Pharm.D. issue has been debated for years among academicians. Last year, it boiled over when the American Council on Pharmaceutical Education (ACPE) issued a "Declaration of Intent" suggesting future accreditation would be limited to schools offering Pharm.D programs only.

"Given the [findings of the SRI study], NACDS agrees with SRI's recommendation that those who are now urging only a six-year Pharm.D. degree for community pharmacists should re-evaluate their position," said Ron Ziegler, president of the chain drug association.

Appropriate for some

"Of course," Ziegler said, "not every pharmacist will go into community practice. Some will choose an institutional setting such as a hospital or one of any number of pharmacy specialty areas. For some of them, education beyond the five-year program may be appropriate."

The study also found that a patient's quality of life can be improved and health care costs lowered if pharmacists take a more active role in patient consultation. But because pharmacists spend most of their time filling prescriptions, the study pointed out that the use of technicians is essential if pharmacists are to provide adequate patient consultation.

Before any decisions can be made concerning a pharmacist's degree of education, the SRI recommended that "leaders in the pharmacy profession must decide on a definition of the future roles of community pharmacists based on analyses and studies of needs for pharmacy-related health care, and a realistic appraisal of potentials for performance of such services in the U.S. health care system."

McKesson opening four DCs

SAN FRANCISCO — McKesson Corp. said it plans to open four new distribution centers over the next two years—three equipped with state-of-the-art materials-handling technology—at a total cost of $65 million.

The new DCs, totalling 800,000 square feet, will be located in Camden, N.J.; Atlanta; St. Louis and Phoenix and will double capacities in each market. All four DCs will replace older facilities, which the company said it will sell.

"These were older, inefficient warehouses that needed to be replaced with new DCs more than others," explained a McKesson spokesman.

McKesson plans to install automated order-picking equipment in the new Camden, Atlanta and St. Louis DCs. The high-speed equipment, which represents $10 million of the $65 million outlay, is more than four times faster than the semi-automated systems the company is currently using. Other facilities will be converted to the new technology down the road, McKesson indicated.

Automated order fulfillment will significantly improve productivity, said Joe Polastri, McKesson Drug president. "We will be able to react more quickly to our pharmacy and hospital customers' needs and with an even higher degree of accuracy."

He added, "The addition of these four new centers and the automated order-picking systems will make it possible for us to keep pace with our expanding business in these markets."

Early this year

The first center to be completed will be the $13 million, 234,000-square-foot DC in O'Fallon, Mo., near St. Louis, scheduled to go on line early this year. It replaces an 86,000-square-foot DC in St. Louis.

The other new DCs, scheduled for completion in 1992, include:

- A $14 million, 235,000-square-foot facility in Delran Township, N.J., near Camden, which will replace a 120,000-square-foot warehouse in Philadelphia.
- A $15 million, 235,000-square-foot DC in northeast Atlanta, replacing a 134,000-square-foot facility in Norcross, Ga.
- A $10 million, 180,000-square-foot warehouse in Goodyear, Ariz., west of Phoenix, replacing an 85,000-square-foot DC in Phoenix.

With completion of these four DCs, McKesson will have opened eight new centers in four years, representing an $83 million investment. It will have 5 million square feet of warehouse space in 45 facilities nationwide, all linked by satellite communications to McKesson's computer center near Sacramento, Calif.

Bergen, others consider FoxMeyer 'for sale' sign

By Elizabeth Richardson

PITTSBURGH — National Intergroup, parent of FoxMeyer Corp., said several companies phave shown interest in buying the drug wholesaler, which is up for sale.

National Intergroup declined to identify the interested parties, but Bergen Brunswig confirmed that it had sent a letter expressing interest.

Robert E. Martini, Bergen's president and ceo, said that "while we hope to engage in serious discussions about FoxMeyer, there is no assurance that we will make an offer, that any such offer will be accepted or that a transaction will occur."

Last summer, when National Intergroup put FoxMeyer on the block, it estimated the company could be worth between $475 million and $525 million, or at least $21 a share. The wholesaler, with about $2.6 billion in annual sales, is the third largest in the industry. A combination of Bergen and FoxMeyer would bring Bergen closer to McKesson Corp., the nation's leading drug wholesaler.

This is the second time that Bergen has expressed interest in the company. The first was in 1985, but the merger was called off days before completion when National Intergroup decided to acquire the company because of the deterioration of its steel business.

Correction

Drug Store News incorrectly reported in its Dec. 10 issue that lobeline was among the more then 200 over-the-counter drug ingredients banned by the Food and Drug Administration recently.

Although a number of ingredients used in OTC smoking deterrent products were removed from the market, FDA has taken no action with respect to lobeline. Indeed, lobeline remains a key ingredient in Advantage Life Products' Cigarrest, one of the nation's leading nonprescription smoking deterrent programs.

Drug Stores News gets a new look

IN THE MARKET
BRUCE BUCKLEY

Question: What's different about this issue of *Drug Store News?*

If you answered, "It's smaller," you win the respect and admiration of our editorial staff and art director.

Both were betting that you would not notice the downsizing of the publication's depth to 14 inches from its previous 14¾ inches. Studies have shown that most readers are seldom aware of any but the most radical changes in a publication's size and design.

Perhaps you're wondering: Why did we do it? Or maybe: Am I getting less information for my money? Since *Drug Store News* is the industry's only publication with a fully paid readership, we were concerned about both reactions.

In answer to the first question: We did it because readers told us to. In our regular readership studies, one consistent request has been for a smaller, handier publication. Readers say the newspaper should be able to slip easily into a briefcase. Our new size will allow it to do just that.

And, no, we have not sacrificed any information in downsizing our format. For the most part, we've given up border space rather than text space. In a future issue we'll introduce a new airier and easier-to-read typeface that will actually provide you with more words per page.

There are other changes in this issue (and in the works) designed to make our publication tighter, better organized and easier to read. Please let us know what you think about the changes. If you have any suggestions, let us know them too.

We listen to customers.

* * *

I'd like to welcome aboard Tim McAlear, president and chief executive officer of Pay Less NW, to *Drug Store News'* Board of Advisers. McAlear, who has been a friend and trusted source since his arrival from K mart almost four years ago, replaces another valued friend and adviser, Ron Schiff, who resigned from Pay Less for personal reasons. We wish him well and give him our thanks for four years of service to our publication.

McAlear, one of the industry's bright young executives, has moved rapidly up the ladder at K mart and Pay Less, as our story on page 1 indicates. When Schiff assumed the number one spot at Pay Less after Ed Hart retired, McAlear took over day-to-day operations as executive vp and chief operating officer. In that job, he helped remake a successful operation into one of the nation's best-operated and most profitable drug chains.

As a member of our board, he'll help guide the editorial direction of *Drug Store News*, commenting on new features with the talented eye of an experienced retailer.

The job conditions for our board members are not the best. We ask for a lot of careful thought, and the pay is lousy. But as in any partnership, we hope we repay with a useful product that serves the industry's needs.

A standup generic company takes a stand

WASHINGTON PERSPECTIVE
KEN RANKIN

A few years ago the representatives of the generic drug industry were the darlings of Washington.

Whenever they came to town Congress would roll out the carpet and gush about how generic drugs helped hold down the nation's health costs.

It's a different story today. The charges of drug approval fraud that have been leveled against some generic drug industry officials in recent months have soured Washington on generics.

If anything, the generic drug industry is even less popular at the Food and Drug Administration's headquarters in Rockville, Md. Indirectly, at least, the generic drug scandals already toppled one FDA commissioner and triggered convictions of several key agency officials charged with accepting gratuities from manufacturers, perjury, and other offenses.

Ironically, one generic drug house that has never been particularly popular at FDA is Barr Laboratories — a major industry firm that remains untainted by the generic scandals.

From the viewpoint of some FDA staffers, Barr's "crimes" include belligerence against the bureaucracy. In addition to bad-mouthing the agency in testimony on Capitol Hill, the Pamona, N.Y., generic manufacturer contested FDA actions in the courts.

Sensing a need to "rehabilitate" the firm's image at the FDA, Barr came up with the idea of a public relations/marketing campaign to offset the negative publicity surrounding the industry and to distinguish Barr from those companies involved in unlawful conduct.

For help they turned to John Norris — former deputy FDA commissioner-turned-public relations swami — who promptly informed Barr that the company's image problems were indeed severe.

Company officials said Norris told them that FDA staffers view Barr "as a sleazy company which attempted to pass off poor science by using lawyers to make agency submissions."

Moreover, Norris said that after discussing Barr with "several high-ranking managers" at the agency, he was told that the firm is "one of the three worst companies" that the FDA regulates.

Worse yet, Norris suggested that FDA regulators have a habit of retaliating against "bad actor" companies by delaying their New Drug Approval applications.

In a memo to officials at Barr, Norris revealed that "key individuals at the FDA have informed me that Barr's relationships with the FDA have deteriorated substantially over the past several months. Although good relations do not guarantee approvals, bad relations do guarantee delays."

Acknowledging that "the FDA can be a tough agency to get along with," Norris went on to state that the FDA "has threatened . . . the futures of selected drug companies," especially "so-called 'bad-actor' companies" with "prior 'bad records' or 'records of belligerence' with FDA," he said.

The generic drug scandals have already toppled one FDA commissioner and triggered convictions of several key agency officials charged with accepting gratuities from manufacturers, perjury, and other offenses.

What would it take to smooth over the rough spots and stop FDA drug approvers from delaying action on Barr's NDAs? A long-term public relations campaign — managed by Norris — at a cost to Barr of $100,000 per month for three years!

As they explained it in testimony to Congress, Norris' clear implication was that "the FDA would continue its discriminatory behavior unless Barr obtained the services of someone with 'old boy' connections."

To their credit, officials at Barr turned down Norris' $3.6 million public relations scheme.

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Videotapes: A mature and powerful market

The typical consumer spends over four hours viewing video tapes and more than two hours recording.

Videocassette recorders have now worked their way into seven of 10 American households. That level of saturation explains the fact that videotape sales have flattened in the past two years after explosive growth in the first half of the 1980s.

The flat lines on growth charts, however, don't convey the whole picture with this category. In its short, 12-year life-span, the market for blank videocassettes has ripened into a $1.5 billion to $2 billion industry, one which owes its existence to technological innovation and the creation of new patterns of American leisure-time behavior.

"According to A.C. Nielsen research, consumers spend a significant amount of time with their VCRs," notes the Photo Marketing Association in its most recent Industry Trends Report. "On average, the typical consumer spends over four hours weekly viewing material and more than two hours recording. So, the VCR is becoming a much more fundamental appliance in the 70 percent of U.S. households that own a video deck."

The tape market is being fed by a steady current of consumer demand that may be showing new signs of growth after reaching its first stage of maturity in the late 1980s.

The market rebounded modestly to estimated unit sales of 295 million in 1990, and should hit 300 million this year, according to the Electronic Industries Association's Consumer Electronics Group. That's far below the wild projections made by some manufacturers in the mid-1980s, which called for unit sales of 500 million by 1990. But it still puts blank videotape on a par with lightbulbs and ahead of major consumer categories like soap and sunglasses in retail dollars generated.

In the near term, reports the PMA, "videocassette sales are expected to remain fairly stable, but the renewed growth of VCR decks could be an impetus for higher blank-tape movement."

New demand may come from the growth in household penetration of camcorders, whose price continues to drop and this year will cost about $825, reports the Electronic Industries Association. Camcorder users tend to use more tapes.

Meanwhile, tape revenues are holding up despite the ferocious price competition of recent years. The reason: "People are more quality conscious and purchasing a larger amount of higher-grade blank videocassettes than ever before," in the words of R. Stanton Bauer, general manager of Fuji Photo Film U.S.A.'s Magnetic Products Division. Higher-grade tapes—including a new generation of professional-quality and longer-playing grades—can retail for several times the price of standard-grade tapes.

Chains like Pay Less have capitalized on the explosive growth of videocassette recorders by offering blank videotapes in their electronic equipment assortment.

Factory sales of blank videocassettes show steady growth

Year	Unit's (millions)	Dollars (millions)
1987	273.8	$1,006
1988	296.9	936
1989	285.6	923
1990*	295.0	910
1991*	300.0	920

*Estimated

Source: Electronic Industries Association

Tape competition tight as price-cutting eases

Retail prices for blank tape seem to have stabilized after years of furious price competition.

Drug chains and independents have been aggressive enough in merchandising and promoting blank videotapes to capture 12 to 13 percent of the market, according to industry estimates. They remain well behind discounters—whose advantages in fielding large stores with big electronics departments have helped give them roughly half the market—but they're on a par with supermarkets and warehouse clubs.

What's more, retail prices for blank tape seem to have stabilized again after several years of furious price competition and drastic discounting by drug, food and discount store chains. "Over the past 18 months or so [tape] prices have dropped considerably, but it's been about six months now since we've seen any dramatic decrease," said Ken Fossaceca, general merchandise manager for Medic Discount Drug, a Cleveland-based chain.

The near-universal distribution of tapes led to the downward spiral in prices and margins, but retailers seem to have gotten the message that tapes are largely an impulse item. They respond well to multiple locations, up-front positioning and good selection.

Continued on page 22

Movie rentals: Combos go where drug chains fear to tread

Rite Aid Corp.'s decision last year to exit the videotape rental business served to confirm the doubts of most chain drug retailers about the viability of the rental business within their industry. If even Rite Aid—the nation's premier chain drug video outlet—couldn't make a successful go of it, reasoned many in the industry, then who could?

A handful of drug chains continue to do well with rental departments, but only 10 percent of chains and 8 percent of large independent drug stores remain in the business.

Rite Aid cited the familiar litany of problems after throwing in the towel on most of its 1,000 in-store rental locations. Competition from huge specialty stores like Blockbuster Entertainment and Erol's was just too fierce. Margins were low. Labor and training costs were high. Movie libraries tied up too many inventory dollars. The departments failed to generate enough cross-merchandising sales, and they ate up too much space in the stores to justify their presence.

A handful of drug chains, like Wellby Super Drug Stores, continue to do well with rental departments. However, only about 10 percent of drug chains and 8 percent of large independent drug stores remain in the movie business, according to new research from A.C. Nielsen.

That stands in stark contrast to supermarket chains, many of which are gung-ho for the rental business and adding departments as fast as they can. Nielsen reports that fully 42 percent of the nation's food chains—and 21 percent of its discount department stores—offer video rental departments, and more are jumping aboard.

The contrast in approaches is simple enough to understand. Food, discount and deep-discount chains field stores that are large enough to accommodate fully-stocked rental centers, and heavily trafficked enough to make them pay off. Indeed, the departments are a natural fit for many combo store formats, which rely on a battery of service departments to flesh out their one-stop shopping advantages.

Factory sales of VCRs to dealers (in millions)

Year	Units	Dollars
1986	12.3	$4.0
1987	11.6	3.4
1988	10.7	2.8
1989	9.8	2.6

Source: Electronic Industries Association

Kroger Co., for instance, now has fully-stocked rental centers in all 700 of its combo stores, and remains committed to the business. "Kroger chairman and ceo Joe Pichler calls movie rentals "a niche opportunity . . . we intend to do more with."

Separate boutique

Other combo chains are also big players in the rental game. Randall's Food and Drug of Houston rents videos in virtually all 40 of its combo stores. In newer stores, Randall's has created a store-within-a-store for its rental business, with a separate entrance and glass walls that enhance the appeal of the departments.

Like Randall's, many other combo operators have created separate boutique settings for video rentals in prominent locations at the front of the store. Among them: Smith's Food and Drug in the Southwest, Schnuck's in St. Louis, and Twin Valu in Cleveland.

Powerful prototype

K mart, meanwhile, has developed a powerful new setting for video rentals in its newly developed prototype, which is being rolled out gradually on a national basis. Movies in these new K mart stores are housed adjacent to electronics in a massive alcove anchoring a front corner of the store.

Among deep-discount drug chains, Phar-Mor continues to roil the competition with 69-cent movie rentals and new, larger departments with more offerings. The chain recently staged a promotion in which consumers were given several free rentals in exchange for their membership cards to competiting video rental stores.

Competition tight, price-cutting eases

Continued from page 21

"It's an impulse category, and we merchandise it at the checkstands," said Fossaceca. "The margins are probably not as good as they could be, but we're not losing money on them. I'm looking at margins of 30 percent or more."

Medic is a relatively new entrant to the blank videotape business, Fossaceca said, and is enjoying strong growth with 4-foot sections at the checkouts. "Our sales are strong on a zero base," he said. "I look forward to a strong year in the category."

Tape manufacturers agree on one thing: retailers can sell more tapes at higher margins if they compete for sales through aggressive merchandising and a good selection of top brands, rather than with steep discounts. "Retailers should stock two to three name brand products and show a broad selection of products with features and pricing to meet consumer needs," said Bob Burnett, 3M/Scotch marketing director.

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High-voltage competition sparks battery market

Be it ever so humble, there's no place like the battery display for fast turns, high-voltage competition and frenzied promotion.

Thanks to the continuing boom in the market for consumer electronics, the category will push past $3 billion at retail this year. Although unit sales have flattened somewhat, and are now running ahead about three percentage points a year, the continuing move by consumers to higher-priced alkaline batteries is still pushing dollar gains ahead at about twice that rate.

That's no small potatoes for a product that one industry insider, quoted in a recent issue of *The Wall Street Journal*, called "probably the lowest-interest category in the world." Indeed, the category's excitement is generated as much by clever ad campaigns—like the Energizer "bunny"—as much as by product innovation or point-of-purchase display.

Sparking sales

Yet innovation continues. In terms of longer-life product development, packaging, retail support and marketing, battery manufacturers have done yeoman work over the past several years to spark sales and wrest market share away from their competitors.

Consider Eveready. In addition to its attention-getting ads, the company is leading a charge for environmentally friendlier products with low-mercury batteries, and is promoting the new, less toxic battery at the point of sale.

Beginning last summer, the company also made both its Energizer alkaline and Eveready Super Heavy Duty brands available in new printed shrink-wrap packaging to cut down on space requirements. So-called Space Packs contain the same number of batteries as Eveready's blister packs, but take up one-third the space. Larger, multi-pack Family Packs are aimed at heavy-use customers, who account for an estimated 73 percent of category volume.

Multipacks a hit

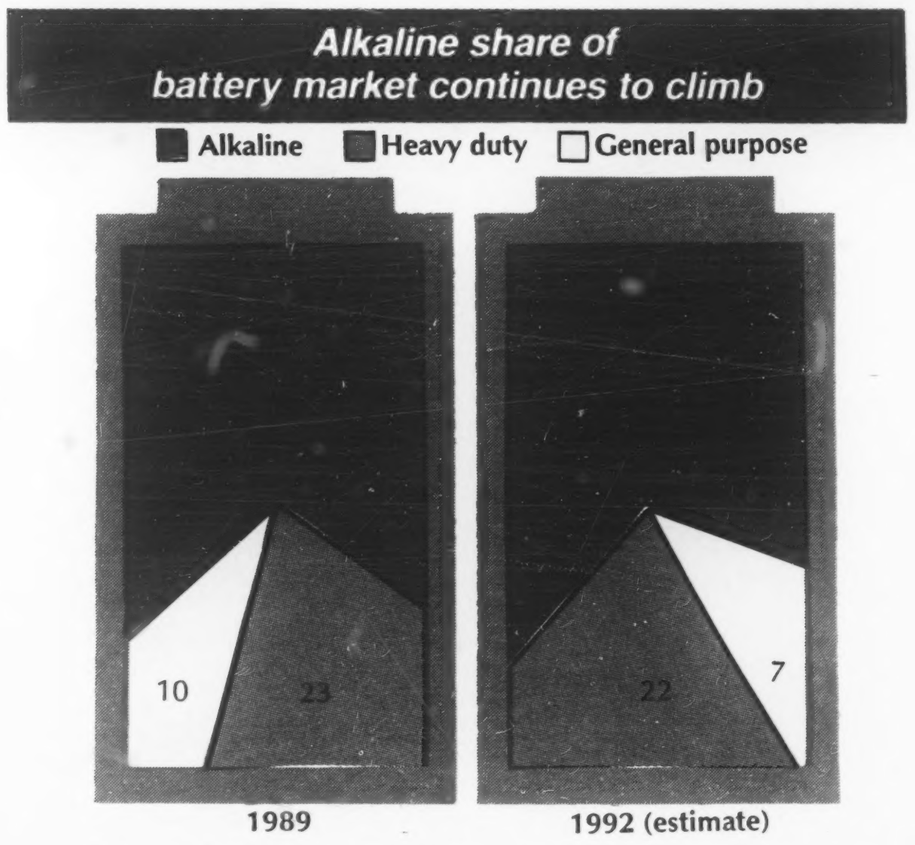
Larger-size multipacks were pioneered by Rayovac, the number three battery maker. Rayovac has achieved big sales gains in discount stores because of its commitment to multipacks, which are merchandised heavily by discounters because they have the space to devote to full battery presentations. Both mass merchandisers and Rayovac itself are aiming at the heavy battery user, which Rayovac profiles as 20 percent of American households consuming 96 batteries a year.

Calling itself the market leader in mass merchandise outlets, Rayovac is working to boost its distribution into drug chains and supermarkets, where it has long been outgunned by Eveready and Duracell. Rayovac multipacks have now found their way into Eckerd, Peoples, Thrift Drug, Big B, Perry, K&B, F&M and LaVerdiere's, said company spokesman John Daggett. More, he said, will add the brand as they fight to regain share from the discounters and food stores.

For its part, Duracell is capitalizing on its leadership in the alkaline segment of the battery market, which now accounts for roughly two-thirds of total sales and is the fastest-growing major segment. Duracell claims it has a 44 percent share of the alkaline segment, compared with 37 percent for Eveready's Energizer. In recent years, the company has focused efforts on boosting user life for its alkaline batteries and emphasizing product freshness with date stamps. It also introduced peggable multipacks in the latter 1980s.

Duracell's most recent innovation is its Copper Top Tester, an in-pack battery tester which came "in direct response to consumers' questions and concerns about battery freshness," according to Duracell U.S.A. president Charles Perrin.

Duracell also jumped early into the growing market for lithium batteries, which offer long life, high energy output, light weight and versatility. In the photo battery market, lithium sales have surpassed $50 million, according to the company.



Multipacks, multiple locations and cross-merchandising are ways drug stores are using to regain their share of battery sales.

Chains face space squeeze in batteries

Battery manufacturers and most retailers agree: to a point, the more space available for the category in the store, the better sales respond. Batteries lend themselves well to cross-merchandising, up-front impulse-oriented display, aggressive POP promotional efforts and multiple locations.

Suppliers and merchants also agree, however, that finding the space to present a full, well-rounded battery presentation and trigger impulse sales with secondary displays isn't easy—particulary for smaller-format drug stores.

"Space management is one of the biggest challenges facing retailers in the '90s," said Gary Baker, Eveready's vp-trade development. "The number of battery-operated devices is estimated to reach 1.6 billion this year. The resulting space crunch often causes increased out-of-stocks and lost profits."

Added Rayovac spokesman John Daggett, "The sale of multipacks and the use of multiple locations is the driving force behind battery sales growth in the mass merchandisers." Acknowledging that drug stores have lost battery market share to their competitors over the past half-decade—from 18 percent to 15 percent, in Rayovac's estimate—Daggett said drug stores are now fighting back.

"The numbers are going to turn around for drug chains,"

Continued on page 34

Consumer demand sends battery makers looking for greener pastures

Heeding the environmental call, battery manufacturers are taking aim at the content and packaging of their products.

Consumers want more earth-friendly products, and battery makers are getting the word.

Heeding the environmental clarion call of the late '80s and '90s, battery manufacturers are taking aim at both the content and packaging of their products. Chief on the hit list is mercury, a particularly deadly element that has long been a key chemical component of batteries because it helps regulate electrochemical activity.

Several battery makers, including Eveready, Rayovac and the smaller Power Plus of America, have been touting lower mercury levels in recent years. Eveready announced last spring that it had achieved a 97 percent reduction in mercury content in its alkaline products, resulting in a 99.975 percent mercury-free battery. The announcement capped a 10-year effort to cut mercury content, according to the firm.

Eveready also rolled out shrink-wrap packaging last year, reducing packaging material volume by 70 percent vs. blister packs.

Rayovac was an early leader in cutting packaging content with its Smartpack multipacks. The company has also reduced mercury content to .025 percent in its alkaline batteries, and to zero in its new heavy-duty products. Rayovac is taking aim at cadmium, which comprises 10 to 15 percent of its current rechargeables.

Retail battery market charging upward
(Unit and dollar sales in millions)

Year	Unit sales	Unit growth	Dollar sales	Dollar growth
1988	2,394	+4.6%	$2,574	+6.8%
1989	2,461	+2.8	2,769	+7.6
1990*	2,540	+3.2	2,931	+6.0

*Estimate

Source: Rayovac/A.C. Nielsen/NFO Consumer Purchase Diary

Chains face battery squeeze

Continued from page 33

he said. "It's proven that secondary locations will sell more batteries, and drug stores are looking at putting them up front, adding secondary locations, cross-merchandising and stocking multipacks.

"I know in a drug store it's difficult to put in more free-standing [battery] displays because of space and concerns about pilferage, but they need to take advantage of impulse sales by offering multiple locations," Daggett said. "Consumers are buying more spares than they used to, because batteries are an item they buy because they see it."

For drug chains and their customers, the brand choices have multiplied and the competition has become fierce as discounters and food stores have added space and secondary locations to a once-stodgy category. Nevertheless, the tide of consumer demand has been enough to lift all the boats. According to A.C. Nielsen, battery unit sales at the nation's drug stores grew to 447.8 million in 1989 from 435.4 million the previous year, while dollar sales hit $410.1 million from $394.5 million in 1988. Sales at food stores were somewhat higher, but year-to-year gains were equally modest.

One word to the wise: the Photo Marketing Association reports that the profile of heavy battery users is a near-match for that of the amateur photo enthusiast. That could mean incremental sales gains for drug retailers that stock batteries at the photo counter.

How batteries are used

Item	1984	1989
Audio (radios, tape units)	30%	28%
Toys/games	18	15
Flashlights/lanterns, etc.	20	14
Spares	3	12
Photo	8	9
Remote controls	1	5
Clocks	4	3
Smoke detectors	3	3
Calculators	5	2
All others	8	9
Total	100	100

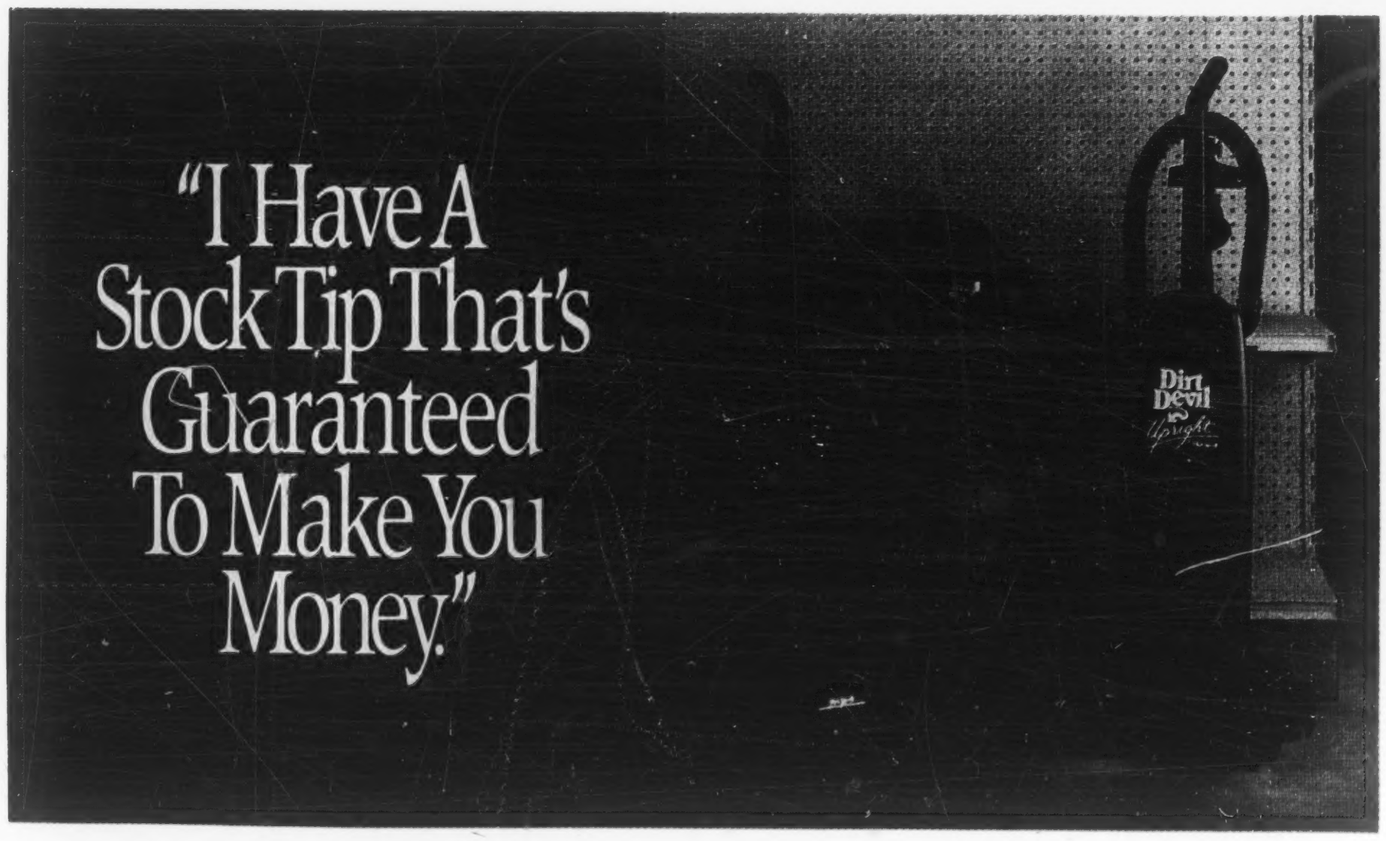
Source:

Small battery suppliers vie for bigger piece of sales pie

Together, the top three battery makers account for more than 85 percent of the total retail market, according to most estimates. Nevertheless, two major manufacturers have weighed into the fray in recent years, and both have the marketing and merchandising muscle that could give them a greater share of the business in future years.

Eastman Kodak continues to push hard for greater distribution, trading on its enormous brand-name strength and its marketing, merchandising and distribution muscle. The company dropped its Ultralife lithium battery last year because of acceptance problems and costs, but has still made steady if modest gains in market share since the mid-1980s. Kodak now has about 6 percent of the market. Another competitor which has been applying its powerful logo to the battle is Panasonic, which is banking on brand loyalty and its quality image in consumer electronics to boost distribution. Panasonic boasts a complete line of batteries, from heavy duty to lithium and nickel-cadmium rechargeables.

Led by Kodak and Panasonic, the smaller suppliers have now carved out at least 12 percent of the battery market in a business dominated by Eveready/Energizer, Duracell, and to a lesser extent Rayovac. The stakes are high: with total sales now above $3 billion a year, each point of market share represents $30 million in business.



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Supermarkets General extends stock/bond offer

WOODBRIDGE, N.J. — Supermarkets General Corp. extended its deadline for a bond and preferred stock tender offer from Dec. 13 to Dec. 28. The move was made after companies who plan to infuse $80 million in equity into SGC set a condition that a minimum of $93.3 million face value of the 13⅛ junk bonds SGC is buying must be tendered.

As of Dec. 13, $31 million face value of the bonds was tendered. Also 643,000 of preferred shares were tendered.

SGC has said the purchase will reduce its interest and dividend payments and improve its balance sheet. The food and drug company for the 13 weeks ended Nov. 3 said that operating earnings were $39.6 million, three percent better than in last year's third quarter, adjusting for a $33.8 million restructuring charge taken in last year's quarter. Operating earnings for the 39 weeks are about $7 million ahead of last year, a spokesman said.

Arbor has a 1st qtr. increase

TROY, Mich. — Arbor Drugs, which has opened nine newstores since its fiscal year began Aug. 1, posted an 11 percent increase in net income and a 17.3 percent increase in sales for the first quarter ended Oct. 31.

Arbor also announced a 25 percent increase in the regular quarterly cash dividend, by declaring a dividend of 5 cents per share, payable Jan. 2, 1991, to holders of record Dec. 19, 1990, which is the second time in 18 months that the cash dividend has been raised.

First-quarter net income rose to $2.66 million, or 28 cents a share, from $2.4 million, or 25 cents per share, for the comparable period last year. Net sales were $92.9 million, versus $79.2 million in the year-ago quarter. Comparable-store sales advanced 10.4 percent for the three months.

earnings per share were $1.11, compared with 91 cents.

Store retail sales were up 19 percent for the year, to $516.2 million, from $435.6 million in fiscal 1989. Franchise fee income derived from store retail sales also rose 19 percent, to $21.4 million.

For the fourth quarter, net earnings advanced to $2.4 million from $2.1 million, and earnings per share were 30 cents versus 25 cents. Store-for-store retail sales were up 13.7 percent this year over last.

Net earnings rise for MSI

ST. LOUIS — Medicine Shoppe International's net earnings and earnings per share both rose 22 percent for the fiscal year ended Sept. 30.

Fiscal 1990 net earnings were $8.98 million, versus $7.36 million last year, and

Big B reports a 3rd qtr. net loss

BESSEMER, Ala. — Big B reported a net loss of $3.9 million for the year-to-date and $959,000 for the third quarter ended Oct. 27, while posting record sales for the periods.

Sales rose to $327.4 million from $285.1 million for the 38 weeks and to $103.2 million from $89.9 million for the third quarter, both representing a 14.8 percent gain.

The net loss for the 38 weeks compares with net income of $2.9 million reported for the year-earlier period. The third-quarter net loss compares with a net loss of $584,000 for the prior-year period.

Big B said that cost-cutting measures and gross margin adjustments following the second quarter substantially reduced the loss in the third quarter and that it expects these steps to further improve fourth-quarter results.

Big B's Board of Directors omitted a quarterly dividend normally paid in December, citing restrictive provisions in various debt agreements and the need to enhance cash flow to facilitate debt payment.

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MARKET DIARY:

Largest Dollar Gainer	Block Drugs Co.	$	3.75
Largest Dollar Loser	Syntex Corp.	$	− 2.75
Largest Percentage Gainer	Fay's Inc.		13.11%
Largest Percentage Loser	Par Pharmaceutical		−17.50%

Advances	25
Declines	27
Unchanged	5
New highs	8
New lows	1

	Close 12/11/90	Close 12/24/90	Net Change	Percent Change
Drug Store News Index	3014.80	2995.62	− 19.18	− 0.64
Dow Jones Industrial Average	2586.14	2621.29	35.15	1.36
Standard & Poor's 500-Stock Index	326.44	329.90	3.46	1.06
N.Y.S.E. Composite	178.42	180.01	1.59	0.89
Value Line Index	187.60	194.86	7.26	3.87

Source: Nordby International Inc., Boulder, Colo.

DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 12/11/90	Closing Price 12/24/90	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Accuhealth Inc.	ACCU	6.00	6.13	0.13	2.08	24	0.00	0.00	7.56	3.13
OTC	Arbor Drugs	ARBR	19.50	20.25	0.75	3.85	17	0.20	0.99	23.25	13.25
OTC	Big B	BIGB	7.50	8.13	0.63	8.33	− 20	0.00	0.00	13.75	4.75
OTC	Drug Emporium	DEMP	7.63	7.63	0.00	0.00	12	0.12	1.57	11.00	6.25
NYS	Fay's Inc.	FAY	7.63	8.63	1.00	13.11	12	0.20	2.32	11.13	7.25
ASE	Genovese Drug	GDX.A	6.38	5.63	− 0.75	− 11.76	11	0.24	4.27	10.13	5.63
NYS	Longs Drug Stores	LDG	36.50	35.75	− 0.75	− 2.05	12	1.04	2.91	44.88	33.25
OTC	Medicine Shoppe	MSII	18.38	19.00	0.63	3.40	17	0.24	1.26	26.75	15.50
NYS	Perry Drug	PDS	5.00	4.88	− 0.13	− 2.50	81	0.00	0.00	9.88	4.75
NYS	Rite Aid Corp.	RAD	35.13	36.25	1.13	3.20	18	0.88	2.43	38.63	29.50
NYS	Walgreen Co.	WAG	51.50	51.25	− 0.25	− 0.49	18	0.92	1.80	53.25	39.88
Wholesaler's transactions											
ASE	Bergen Brunswig	BBC	27.38	27.63	0.25	0.91	15	0.40	1.45	29.63	20.50
OTC	Bindley Western Ind.	BIND	11.25	12.13	0.88	7.78	17	0.04	0.33	14.25	8.63
OTC	Cardinal Distribution	CDIC	27.00	26.75	− 0.25	− 0.93	24	0.08	0.30	29.00	15.88
OTC	Durr-Fillauer	DUFM	26.75	27.25	0.50	1.87	17	0.28	1.03	28.25	19.50
ASE	Ketchum	KCH	1.25	1.25	0.00	0.00	− 1	0.00	0.00	5.13	1.25
NYS	McKesson Corp.	MCK	30.88	32.38	1.50	4.86	14	1.60	4.94	38.38	26.88
ASE	Moore Medical	MMD	4.38	4.38	0.00	0.00	− 5	0.00	0.00	9.88	3.50
NYS	Owens & Minor (H)	OMI	14.50	14.75	0.25	1.72	20	0.24	1.63	14.88	10.63
Manufacturer's transactions											
NYS	Abbott Labs (H)	ABT	44.88	43.75	− 1.13	− 2.51	20	0.84	1.92	46.38	31.25
NYS	American Home Products	AHP	51.63	53.00	1.38	2.66	14	2.12	4.00	55.13	43.00
NYS	Baxter International	BAX	28.75	27.75	− 1.00	− 3.48	− 96	0.64	2.31	29.50	20.50
OTC	Block Drugs Co. (H)	BLOCA	35.00	38.75	3.75	10.71	14	0.76	1.96	38.75	29.63
ASE	Bolar Pharmaceutical	BLR	2.75	2.50	− 0.25	− 9.09	− 2	0.04	1.60	19.00	1.88
NYS	Bristol-Myers Squibb (H)	BMY	67.00	66.63	− 0.38	− 0.56	36	2.40	3.60	68.00	50.50
NYS	Carter-Wallace	CAR	52.88	52.75	− 0.13	− 0.24	16	0.92	1.74	58.63	44.88
ASE	Columbia Labs	COB	5.13	4.88	− 0.25	− 4.88	− 3	0.00	0.00	15.50	3.63
ASE	Forest Labs (H)	FRX	49.00	49.13	0.13	0.26	30	0.00	0.00	50.75	33.63
ASE	Halsey Drug	HDG	2.88	2.44	− 0.44	− 15.20	244	0.00	0.00	6.25	2.13
NYS	ICN Pharmaceutical	ICN	3.13	2.88	− 0.25	− 8.00	0	0.00	0.00	5.50	2.50
ASE	Lee Pharmaceutical (L)	LPH	1.00	0.88	− 0.13	− 12.50	− 3	0.00	0.00	2.75	0.88
ASE	P. Leiner Nutrition	PLI	8.00	7.88	− 0.13	− 1.56	9	0.00	0.00	12.63	6.75
NYS	Lilly Eli Co.	LLY	75.63	74.25	− 1.38	− 1.82	20	2.00	2.69	90.38	58.75
NYS	Marion Labs (H)	MKC	33.38	35.25	1.88	5.62	24	0.80	2.27	35.63	21.00
NYS	Merck Co.	MRK	86.25	87.13	0.88	1.01	20	2.24	2.57	91.13	67.00
NYS	Mylan Labs	MYL	21.00	19.75	− 1.25	− 5.95	22	0.20	1.01	24.75	13.75
NYS	Par Pharmaceutical	PRX	5.00	4.13	− 0.88	− 17.50	− 3	0.00	0.00	8.25	3.38
NYS	Pfizer Inc. (H)	PFE	79.50	80.75	1.25	1.57	18	2.40	2.97	81.50	54.50
NYS	Rhone-Poulenc Rorer	RPR	65.00	68.38	3.38	5.19	− 44	0.84	1.23	78.25	45.75
NYS	Schering Plough	SGP	46.13	45.13	− 1.00	− 2.17	19	1.12	2.48	50.75	37.00
NYS	Syntex Corp.	SYN	60.63	57.88	− 2.75	− 4.54	18	1.60	2.76	63.75	46.75
OTC	Taro-Vit Industries (H)	TAROF	2.88	2.88	0.00	0.00	− 48	0.00	0.00	3.13	0.88
NYS	Upjohn Co.	UPJ	40.63	38.63	− 2.00	− 4.92	20	1.16	3.00	44.63	33.00
NYS	Warner-Lambert	WLA	68.63	66.88	− 1.75	− 2.55	19	1.52	2.27	70.38	49.63
OTC	Zenith Labs	ZENL	6.00	5.50	− 0.50	− 8.33	0	0.00	0.00	11.75	3.75
Other retailer transactions											
NYS	Albertson's	ABS	35.75	35.88	0.13	0.35	22	0.48	1.34	37.63	24.38
NYS	American Stores	ASC	54.50	53.00	− 1.50	− 2.75	12	1.12	2.11	71.50	42.63
NYS	Giant Food	GFS.A	27.13	27.50	0.38	1.38	14	0.60	2.18	29.88	21.13
NYS	Great Atlantic&Pacific Tea	GAP	43.13	43.63	0.50	1.16	11	0.80	1.83	61.75	37.75
NYS	Kmart	KM	28.75	28.00	− 0.75	− 2.61	17	1.72	6.14	37.25	23.38
NYS	Kroger	KR	13.00	13.88	0.88	6.73	53	0.00	0.00	17.00	10.63
NYS	Melville Corp.	MES	40.13	42.00	1.88	4.67	12	1.40	3.33	57.75	32.75
OTC	Fred Meyer	MEYR	11.75	11.75	0.00	0.00	− 59	0.00	0.00	18.75	10.00
NYS	Penney, JC	JCP	43.63	43.38	− 0.25	− 0.57	7	2.64	6.09	75.63	37.38
NYS	Safeway	SWY	12.00	12.25	0.25	2.08	31	0.00	0.00	16.88	10.25
NYS	Smith's Food & Drug	SFD	29.75	28.13	− 1.63	− 5.46	22	0.28	1.00	34.50	22.75
NYS	Wal-Mart	WMT	30.25	31.50	1.25	4.13	29	0.12	0.38	36.75	20.25

Key: (H) = New annual high reached in the bi-weekly period. (L) = New annual low reached in the bi-weekly period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.
Source: Nordby International, Inc., Boulder, Colorado

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